



INTERVIEW

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THE OIL & GAS YEAR INTERVIEW WITH ABDULRAHMAN AL-SHAIBI

Qatar Petroleum ("QP") transferred its interests in QAFCO, QAPCO, QAFAC and Qatar Steel to Industries Qatar ("IQ") in 2003. The company's \$660m Initial Public Offering ("IPO") was made later the same year. IQ is the largest industrial firm listed on the Qatar Exchange ("QE"), comprising 15% of QE Index as at. QP currently owns 70% of the shares in IQ whilst the remaining 30% are owned by the public.

What was the rationale and strategy behind the creation of IQ?

IQ was established in congruence with Qatar's diversification strategy. The key focus of this strategy was to enhance the scope of business offerings in the State of Qatar. In another word, IQ is one of selected groups of top companies that the state of Qatar decided to privatise with the intention of developing the Qatari capital market.

A second rationale behind IQ's creation was that the government wanted the public to participate in the major initiatives that the State has taken, particularly in the oil and gas sector. The 2003 IPO was one way of bringing the private sector into these major State initiatives. It provides a platform for the private sector to learn more about the oil and gas sector. In future, the private sector will be able to leverage the knowledge they gain from IQ to support the state's objective of expanding the role of the private sector.

A third motivation was that the state aimed to distribute the wealth generated from these hydrocarbon projects to its nationals. This was evident from the capital gain delivered to the public as a result of listing IQ as well as from the robust dividends that the shareholders have received over the past few years. When QP divested 30% of its share in IQ to the public, the fair value of the share was discounted by 74% where 150 million shares were issued for just QR 16 per share. The wealth distributed to the public through capital gains exceeded QR 16 billion. In addition, IQ shareholders have in the past few years received dividends which represent almost double the value of the IPO price.

On what basis were these companies selected?

On one side, we wanted to have very strong and diverse companies in our portfolio. It was important that we've selected companies that had excellent track records in their operations and robust profitability. Given that this was one of our first initiatives towards privatisation in Qatar, we wanted to make sure that the first experience would have the best chance to succeed. That is why we decided to select these companies. On the other hand, such companies are producing primary products, so the chance of

developing the medium and small industries is tied to the type of the product portfolio that we have in place. Again, everything is driven by the fact that the State of Qatar has broader economic objectives. Supporting the private sector and providing the required feed stock, are important steps towards increasing the role of the private sector and its contribution to the economy.

What synergies can be achieved between the companies in IQ portfolio and how might that help the performance of the individual companies?

By putting these large companies into one group we benefit more from the centralised decision making process in order to have more efficiency and to get the best out of a common strategy that will yield the highest benefit to the entire group. For example, the fact that all these companies are located in the Mesaieed Industrial City helped reduce transportation costs.

For future synergies, we perceive RasGas and Qatargas as a good model. These groups created an operating company where by the human resources, financing and administrative sides of the business have been transferred into one company. The operating company is now providing these services for the entire group while each company maintains its own identity. IQ might consider having a similar structure. Another opportunity that IQ can benefit from is the establishment of a unified marketing company capable of combining and enhancing the total networking force that each company has in place globally. This will leverage the existing strength and will promote for having a stronger presence internationally and to meet our targeted customers. These are some potential long term strategies which have not yet been considered by IQ management.

The other dimension that I see for the future is that we have enough space in Mesaieed to build other industries around IQ group companies. These companies will benefit from the raw materials available in the industrial city and their proximity to IQ companies.

The global economic slowdown impacted strongly on petrochemicals and steel. How did IQ cope and have you seen any green shoots of recovery?

The credit crunch and the global financial market crisis created a sharp drop in demand for commodities and primary products. The normal consequence was a price collapse, which we saw in the third quarter of 2008. IQ, like other vital industries in major economies, has been affected by what happened in 2008 and continued into 2009. We experienced a steep correction in prices, followed by a sort of stabilisation at the beginning of 2009, and we have seen improvement in some products as well. In petrochemical products for example we have seen a lot of improvement in low density polythene and the low density polythene prices. It has grown more than 40% on its lowest prices during 2008. In the steel and the fertiliser segments we have seen a stabilisation but we have not seen much improvement in prices.

Of course, profitability has gone down. The total sales revenue has gone down from QR14.7 billion (\$4.04 billion) to QR9.7 billion (\$2.67 billion) in 2009, and net profit has decreased by about 33% since 2008. But the net profit margin has improved by 1.1%. We managed to meet our budget. We were above budget for sales revenue by 1.5% and 0.1% net profit margin. So we think that is quite an achievement coming out of a very difficult year. If we look at the gross profit margin for IQ group we are talking about levels close to 50% a very healthy indication of growth.

How does IQ adapt to the imposition of government price freezing policies such as the price ceiling put on steel in 2008?

The price cap on Qatar Steel products was undertaken in what can only be described as highly inflationary market conditions. Demand for steel in the local market was very high and there was an acute shortage, pushing prices up and leading to the government decision to cap the price. Afterwards, Qatar Steel has claimed the government to compensate for the price differential. The company was not asking for any sort of subsidies from the government, but rather for a measure to recover the lost earnings caused by the government's policy.

IQ will launch the Qatar Melamine Company in 2010, QAFCO-V in 2011 and QAFCO-6 in 2012; how do you maintain such growth?

We have a very clear and structured vision of where we are heading, in terms of our investments and production volume, and hopefully we will maintain a level of profitability that will satisfy our shareholders. It has been a while that our investment programme started and is continuing now at a pace that we are very satisfied with. We are expecting to spend approximately QR16 billion (\$4.4 billion) in the next three years to support the ongoing investment programme. As major parts of this programme, there are projects that are under construction that will enable us to achieve about 16% growth on an annual basis. Hopefully by 2014 our sales revenue will double to QR20 billion (\$5.5 billion).

However, these projects have passed the feasibility stage and are now being implemented, we are quite certain that we will achieve our objective. We will see most of those projects operating this year, in 2010 and in 2011 and 2013. Our next plan is

beyond 2014. The programme that we are working with today is very solid. All the financing facilities are also present to support and boost this development further and further. So no matter what happens to the market in terms of lack of liquidity, the IQ group will remain in a very strong position either by relying on its internal resources or by depending on the strength of the industries that have already been secured.

Our philosophy is unique in bringing more stability, progress and growth onto our nation.

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ABOUT IQ:

Industries Qatar QSC (“IQ”) was incorporated as a Qatari joint stock company on April 19, 2003. The business operations of the company comprise the direct holding of shares in the following subsidiary and joint venture companies: (i) Qatar Steel Company QSC (“QS”), a wholly-owned subsidiary, engaged in the manufacture and sale of steel billets and reinforcing bars; (ii) Qatar Petrochemical Company Limited QSC (“QAPCO”), a joint venture owned 80% by IQ, engaged in the production and sale of ethylene, low-density polyethylene (“LDPE”), linear low-density polyethylene (“LLDPE”) and sulphur; (iii) Qatar Fertiliser Company SAQ (“QAFCO”), a joint venture owned 75% by IQ, engaged in the manufacture and sale of ammonia and urea; (iv) Qatar Fuel Additives Company Limited QSC (“QAFAC”), a joint venture owned 50% by IQ, is engaged in the production and export of methanol and methyl-tertiary-butyl-ether (“MTBE”); and (v) Fereej Real Estate Company, a joint venture owned 34% by IQ, engaged in investing in residential and commercial buildings, and the provision of facilities management and construction project management services.

The operations of the subsidiary and joint ventures remain independently managed by their respective management teams.